annual report 2006

special forces pension plan

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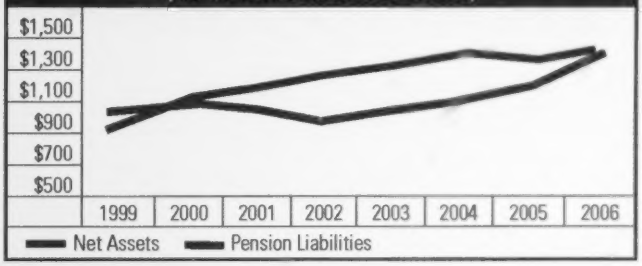
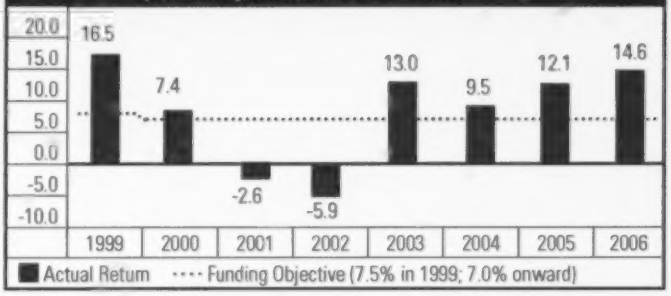
highlights

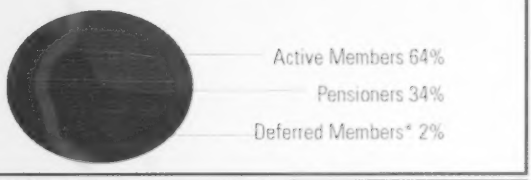
Net Assets vs. Pension Liabilities
($ millions)
(as at December 31, 2006)



Rates of Return (%)
(for the year ended December 31)

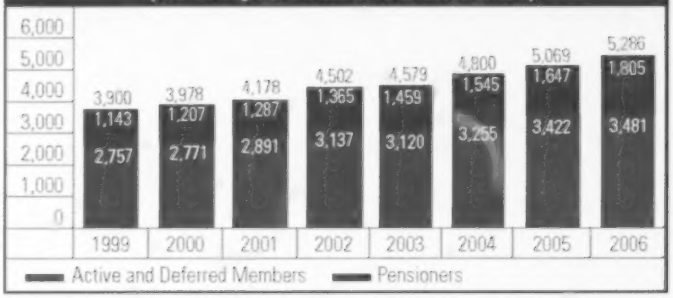


Membership Profile
(as at December 31, 2006)



* Members who are no longer employed by a Plan employer, have left contributions in the Plan and have yet to choose a pension option.

Total Members and Pensioners
(for the year ended December 31)



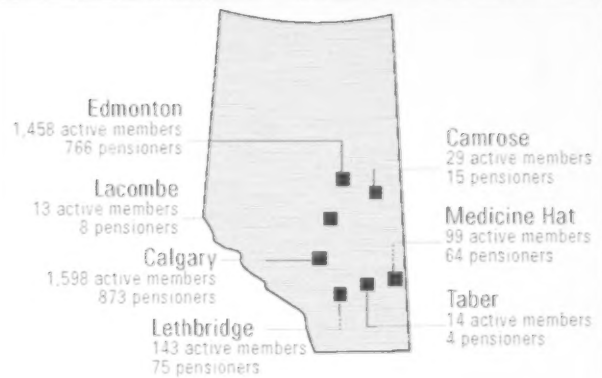
Summary of Net Assets Available for Benefits and Accrued Benefits
(as at December 31, 2006)

	2006	2005
	($ thousands)	
Net Assets Available for Benefits	1,467,260	1,290,990
Actuarial Value of Accrued Benefits		
Plan Fund	1,424,137	1,353,848
Indexing Fund	9,849	4,485
	1,433,986	1,358,333
Deficiency		
Plan Fund	33,274	(67,343)
Indexing Fund*	-	-
	33,274	$(67,343)

* COLA has been granted for pensionable service up to December 31, 2000. Please see www.sfpp.ca for more details.

2006 Asset Mix Policy

SFPP Members and Pensioners by Location*



* Does not include members retaining active plan status who are not currently active with any employer.

2006 special forces pension board

employee nominees

Colin Catonio,
Lethbridge Police Association

Denis Jubinville (Vice-Chair),
Edmonton Police Association

Graeme Ramsay,
Calgary Police Association

crown nominee

photo not available

Alex Fowlie,
Crown Nominee

employer nominees

Roger Rosychuk,
City of Edmonton

Garth Sherwin,
City of Lethbridge

David Watson (Chair),
City of Calgary

board secretary

Liz Doughty,
APA Corporation

message from the board

The Special Forces Pension (SFP) Board is pleased to present the *2006 SFPP Annual Report* on the operation of the SFPP over the past year. The annual report provides comprehensive information about the SFPP, its financial status, processes and performance. An abbreviated "highlights" document is mailed directly to members and pensioners.

The Board acts solely in the interests of stakeholders to ensure that the SFPP is operated in compliance with legislation and regulations and that the Plan's assets are managed effectively and efficiently in order to provide a secure pension for SFPP beneficiaries. In order to fulfill its fiduciary mandate, the Board's *2006-2008 Business Plan* initiatives are based on the following set of values and principles:

- Plan assets must be managed effectively, efficiently and in compliance with legislation and regulations.
- All decisions made by the Board will be financially prudent and fiscally conservative, ensuring that the overall financial health of the Plan is maintained, and costs charged to the Plan are reasonable in accordance with agreed-upon rates.
- The benefits and services provided by the Plan will be fair and equitable.

Reflective of the above values and principles, the Board's activities and accomplishments in 2006 were as follows:

- Monitored investment strategy and Plan funding. This is a crucial role as approximately 80% of the Plan's income is based on investment returns, and the other 20% is derived from contributions.
- Commissioned an actuarial valuation as of December 31, 2006 to determine the current status (or value) of the Plan's liabilities.
- Reviewed alternative approaches to the current ad hoc method of SFPP inflation protection (inflation protection is intended to directly increase the basic pension to keep pace, at least partially, with the cost of living, subject to available funding).

- Participated in a review and revision of the cost allocation methodology for administration costs, which resulted in a cost reduction for the Plan.
- Worked with Alberta Finance and with other public sector pension plans to ensure a strong governance framework. The Board also strengthened its own internal governance processes through systematic policy review and revision.

Further information on these major Board initiatives and other SFPP performance details is provided below.

investment results

The SFPP Fund continued to enjoy good investment performance during 2006, earning a return of 14.6% in 2006 compared to 12.1% in 2005 and 9.5% in 2004. The value of the Plan's net assets increased to $1.467 billion, up $176 million from $1.291 billion the previous year. The healthy investment gains in each of the past three years are encouraging as we continue to rebuild from the "perfect storm" of low interest rates and poor stock market performance earlier this decade.

More information on the 2006 investment performance is provided in this report, and historical investment results are available on the SFPP Web site at www.sfpp.ca.

investment policy

In establishing and reviewing SFPP's investment policy, the Board's objective is to seek investment growth for the Plan assets which, along with current contributions, are expected to keep pace with liabilities. At the time of the last asset-liability study, a target asset mix was adopted which was expected to exceed the 7% funding rate of return (comprised of the assumed real return of 3.75% and expected inflation of 3.25%). Changes to the mix included adjusting the bond holdings to better reflect the long-term nature of the Plan's liabilities. Also coming out of the asset-liability study was a focus on diversifying sources of return. Long-term target allocations to non-publicly traded assets include 7% in real estate and 8% in alternative investments, including private equity, private income and timberland assets. Given the illiquid nature of these alternative asset classes, the move into these alternative investments is intended to be phased in with market opportunities. At the end of 2006, the real estate allocation was at target, while the remaining alternative investments were at 1.5% of the total assets. Transition to target weights continues into 2007.

While solid investment returns in the past few years have been welcome, the declining interest rates that have accompanied strong equity and bond returns provide defined benefit plans with a challenging environment looking forward. Lower bond yields, even within a diversified portfolio of assets, have the impact of reducing future portfolio return expectations. Given the continually evolving nature of the Plan liabilities and capital market expectations, the *2006-2008 Business Plan* includes preparation for and completion of a study to assess returns and risks projected for various investment strategies relative to pension liabilities.

funding status

The last actuarial valuation, performed as of December 31, 2004, indicated that the level of contribution rates to SFPP for current service accruals for post-1991 service slightly exceeded (by 0.06%) the amount required for the normal cost of 2004 benefits. It also indicated that the pre-1992 unfunded liability had risen and a small unfunded liability existed for post-1991 service. The Board supported the recommendation of the actuary to continue current contribution rates.

The financial statements in this annual report show that based on the investment performance of the Fund and a projection of the Plan's liabilities based on assumptions used in the last actuarial valuation as at December 31, 2004, the Plan's assets grew roughly $100 million more than the Plan's liabilities in 2006. This puts SFPP in a net surplus position (assets greater than liabilities) of roughly $33 million. The pre-1992 unfunded liability still exists; however, legislation governing SFPP anticipates this will be fully funded by 2036. While the financial statements provide important information for you to judge our performance in investing, there is another measure that more accurately defines SFPP's funded status: the actuarial valuation as prepared by the Plan's actuary.

The actuarial valuation of the Fund is used to determine the contribution rates required under the Plan. The actuarial value of the Fund's assets grew to $1.363 billion in 2006 from $1.223 billion at the end of 2005. The actuarial value represents a "smoothed" value of the

assets and is expected to be less volatile than the market value (which is used in financial statements). This feature of the valuation of assets helps reduce the volatility that will otherwise be reflected in the contribution rates required to fund the Plan.

According to an extrapolation by the actuary based on the assumptions and methods used in the December 31, 2004 valuation, the Plan's total liability as of December 31, 2006 was estimated at $1.424 billion. The assumptions used do not necessarily reflect the assumptions that might be used in a valuation undertaken as of December 31, 2006.

Actuarial Value of Assets vs. Actuarial Liabilities
($ millions)

	December 31, 2006			December 31, 2005		
	Pre-92 Service	Post-91 Service	Total Service	Pre-92 Service	Post-91 Service	Total Service
Market Value of Net Assets*	762	696	1,458	702	584	1,286
Asset Fluctuation Reserve	(53)	(42)	(95)	(36)	(27)	(63)
Actuarial Value of Net Assets	709	654	1,363	666	557	1,223
Estimated Actuarial Liabilities*	787	637	1,424	782	572	1,354
Surplus/ (Deficiency)	**(78)**	**17**	**(61)**	**(116)**	**(15)**	**(131)**
Funded Ratio	90.2%	102.7%	95.8%	85.1%	97.5%	90.4%

* Does not include separate indexing fund.

The Board has directed the actuary to perform an actuarial valuation of the Plan as of December 31, 2006. It has been two years since the last valuation, and it is important that the Board obtain an updated picture of the Plan's funded position based on changes in Plan membership over that period. The valuation will examine how membership changes may have impacted the Plan's funded position in respect of pre-1992 and post-1991 liabilities, the status of the Indexing Fund used to fund post-1991 cost-of-living adjustments (COLA), and the cost of pensions to be earned in the future. The Board will also take this opportunity to review the assumptions used to ensure they are consistent with the Board's risk tolerance and the Plan's ability to withstand possible negative investment performance or changes in demographic experience.

In particular, the Board is aware that the good investment returns enjoyed over the past three years may not continue into the future. Similarly, changes in the average age of SFPP members or changes in retirement patterns and inflation rates can all have an impact on the financial health of the Plan. The process of setting assumptions for the actuarial valuation requires the Board to balance the risk of possible future negative experience against the risk of raising contribution rates to a level where active Plan members and employers feel they are paying too much for current service costs.

The results of the valuation will be available for review by the Board in mid-2007. At present, the total combined contribution rate requirement by Plan members, employers and the Government of Alberta to the SFPP remains at 22.37% of pensionable salary (members at 10.01%, employers at 11.11%, and Government at 1.25% towards the pre-1992 unfunded liability). These rates have remained stable from 2003 through 2006, and no rate increase is planned for 2007.

cost-of-living adjustments (COLA)

In 1992, after discussions between Plan stakeholders, the legislation was amended to guarantee COLA for all pensionable service prior to 1992 at 60% of the Alberta Consumer Price Index (ACPI). From that point forward, combined COLA contributions were determined at 1.5% of salary, to be shared equally by employees and employers. A separate COLA Indexing Fund was set up to receive these contributions, along with future Plan surpluses as determined by the Plan's actuary.

Although it was known in 1992 that the contribution rate of 1.5% of salary would only fund 23% of ACPI, optimism prevailed about future market conditions and the availability of future Plan surpluses to assist in funding COLA to the historical level of 60% of ACPI. Based on this contribution rate and Plan surplus, assets in the COLA Indexing Fund have enabled the Board to grant COLA at 60% of ACPI for all pensionable service up to December 31, 2000.

As part of the 2006 actuarial valuation, the Board will be revisiting the COLA funding methodology. Throughout 2007, the Board will be consulting with Plan stakeholders regarding possible funding alternatives, as the current assets in the Indexing Fund are not sufficient to provide this benefit at historic levels for service years 2001 to 2006.

plan governance

One of the Board's fiduciary roles in governance is to ensure that costs charged to the Plan are reasonable and in accordance with agreed upon rates. In 2005 and 2006, the Board participated in a review of the Plan cost allocation methodology for administration expenses with Alberta Pensions Administration (APA) Corporation and the other public sector pension plans APA Corporation administers. This review resulted in a revised cost-sharing formula implemented by the Minister of Finance, effective January 1, 2006. As a direct consequence this year the SFPP administration costs charged to the Plan Fund have decreased by $36 per member. With the assistance of APA Corporation, the Board will continue to look at methods of cost savings for the Plan.

On a broader perspective, the Board worked with the Pensions, Insurance and Financial Institutions department of Alberta Finance in order to update and clarify the roles and responsibilities of the public sector pension boards and their service providers. In 2007, the Board will continue to work with Alberta Finance as it reviews the stakeholder input process, the makeup of the boards, and the board member appointment process.

The Board is very fortunate to have a highly qualified group of professionals with diverse skills. Over the past year and a half, four out of seven Board members have been replaced due to appointment expiration or retirement. Based on our governance and knowledge transfer initiatives, we were able to maintain a high level of effectiveness during this transition. The new membership has brought together a combination of talents that have resulted in fresh perspectives on many complex issues.

The Board continues to strengthen its own internal governance. An enhanced educational policy was developed for the Board, so that Board members may obtain and maintain the skills required to meet the fiduciary obligations to members of the SFPP. Board members' skills are further supplemented by the hiring of external consultants when required.

The Board prepares a three-year business plan that is updated every year. In order to manage the Plan and Fund in a prudent manner, procedures, Board policies, and operational changes are reviewed regularly, and ongoing improvements are identified to enhance efficiency and reporting to the Board. An annual Board self-assessment and code of conduct review are performed to ensure the Board continues to serve the Plan and its members to the best of its abilities.

Board publications, such as annual reports (which include audited financial statements), annual highlights brochures, the *Statement of Investment Policies and Goals (SIP&G)*, the business plan, newsletters, actuarial valuation reports, investment results, and many other Plan-related documents are made available on the SFPP Web site at www.sfpp.ca. The Web site also contains a link to the secure interactive pension information service, **mypensionplan**, which allows all active and deferred members confidential access to their SFPP file for information or pension estimates. We encourage all Plan members to access this information and would be happy to answer any questions you might have. Contact information is provided on page 49.

acknowledgements

The Board values its relationships with Alberta Investment Management (AIM), APA Corporation, and Alberta Finance. Further, the Board would like to recognize its external consultant, Hewitt Associates, for providing both actuarial and investment services. Finally, the Board would like to thank Liz Doughty and Christine Brough for their professionalism, dedication and hard work in supporting the day-to-day operation of the Plan and Board.

management of the SFPP

The rules governing the SFPP are primarily found in the *Public Sector Pension Plans Act* and regulations. The Minister of Finance holds the assets of the Plan in trust and is responsible in legislation for the administration of the Plan and the investment management of its assets.

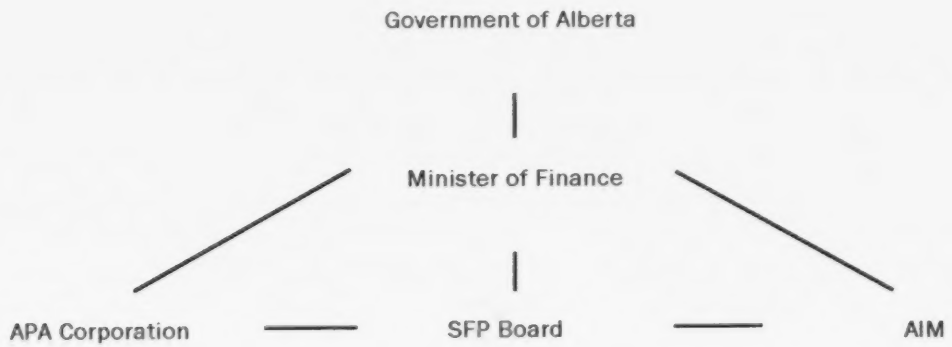
The Board has seven members (three employer nominees, three employee nominees and one person nominated by the Government of Alberta) that are appointed by the Lieutenant Governor in Council. The Board is charged with a number of legislated responsibilities, including: arranging actuarial valuations, setting contribution rates based on the actuary's recommendations, providing general guidelines on Plan administration, and setting investment policy for the Plan's assets.

The Minister of Finance has delegated the administration of the Plan to APA Corporation, which is a provincial Crown corporation governed by a board of directors, with representatives from the private sector, pension boards and the Government of Alberta. The Corporation provides services to members, pensioners and employers and is responsible for the day-to-day administration of the SFPP.

AIM, a division of Alberta Finance, manages and invests the assets on behalf of the Minister of Finance and the Board.

The Alberta Auditor General conducts an independent audit of the financial statements of the SFPP to ensure they are presented fairly in all material aspects and that they are in accordance with Canadian generally accepted accounting principles. The Auditor General provides a report to the Board identifying any significant findings arising from the audit and other matters they believe should be brought to the Board's attention.

The Board also seeks expert advice in order to make fully informed decisions. To ensure the appropriate and adequate discharge of its legislated and fiduciary duties, the Board requests its administrator to enter into contracts on its behalf for both actuarial and investment consulting services.



report from APA Corporation

APA Corporation provides administrative services to SFPP under an Administrative Services Agreement with the administrator of the Plan, the Minister of Finance. The Corporation also provides support services to the SFP Board.

The Corporation's core business is to provide benefit administration for pension plan members, pensioners and employers by paying benefits, collecting pension plan contributions, maintaining membership records and providing information to members, pensioners and employers.

In 2006, APA Corporation met 94% of our targets for services to plan beneficiaries. Demands for our services increased through 2006 and resources were adjusted to address the demand for services. We exceeded member, pensioner and employer satisfaction targets. Our primary focus has been to continue to meet established service targets while reviewing ways of improving process efficiencies and fulfilling our fiduciary obligations to the Minister of Finance.

The Corporation attained its key operational priorities in 2006 while managing its costs. Year-end expenditures were $2.4 million under budget; operating expenses were $24.3 million and capital expenditures were $0.5 million on budgets of $26.7 million and $1.3 million respectively. The primary contributors to lower expenditures were limited resources for projects and timing of consultancy fees and contracts for plan boards.

In 2006, significant projects completed include:

- An employer on-line manual (*Pension e-guide*) that increases electronic information accessibility for employers.
- Extensive work on pension administration issues, such as plan membership, retirements and optional service, in support of completing *Pension e-guide*.
- Implementation of a new Reciprocal Transfers arrangement between the Local Authorities Pension Plan and the Public Service Pension Plan, allowing plan members greater flexibility in their employment choices.
- Adoption of an electronic records management system (Vault) and conversion of employer and member records to electronic format.
- Development of strategies, plans, a business model and performance measures through a Change Agenda Program that will enable APA Corporation to continually improve its pension administration services and meet increasing client demands.

APA Corporation continues its commitment to ensuring its systems and processes are operating effectively and efficiently through its Internal Controls Assessment Program. This ongoing program provides assurance that proper controls are established and maintained to protect plan funds and the Corporation's assets. During the year, activities included ongoing re-testing, developing processes for quarterly business compliance reporting and testing controls in project management and business processes.

Based on the work completed and strategies developed in 2006, the Corporation will work on three strategic priorities in 2007:

1. Improve services to plan members, pensioners, employers and governors by understanding their expectations and delivering valued pension services.
2. Continue to build a knowledge-based organization that empowers employees to deliver valued pension services to our clients.
3. Create strategic partnerships to align with the plans' governor and our Shareholder's obligations.

Please refer to our Web site, www.apaco.ab.ca, for additional information on APA Corporation's activities.

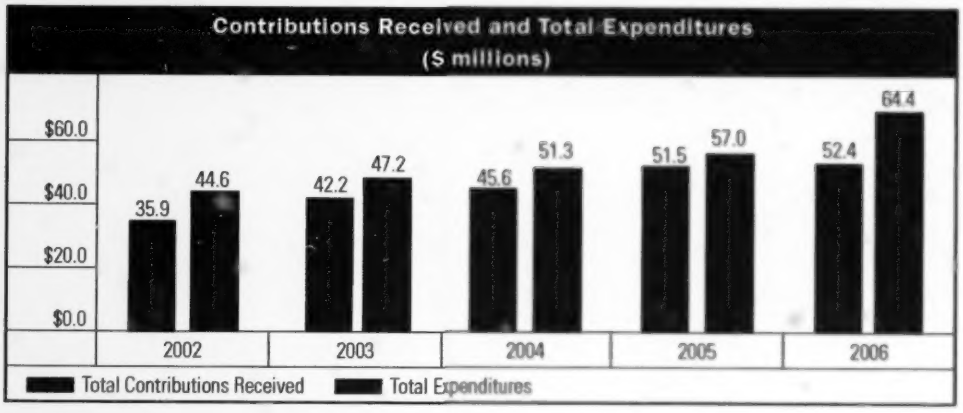
administration report

SFPP is administered by APA Corporation. In 2006, APA Corporation provided the following services for SFPP members, pensioners, employers and the SFP Board.

plan statistics

contributions

In 2006, total contributions to SFPP were $52.4 million. Payments from the Plan were $64.4 million.



SFPP expenses

APA Corporation's costs are distributed among the public sector pension plans it serves. SFPP per member costs are based on a cost-share formula, which allocates APA Corporation operating costs according to a formula decided by the Minister of Finance and detailed in the Administrative Services Memorandum of Understanding between APA Corporation and the Board.

Based on average membership, SFPP costs totalled $241 per member compared to $279 per member in 2005. These figures do not include fees for outside investment management and related services. The SFPP investment results are reported after deducting these costs.

The Corporation charges SFPP with its share of APA Corporation's operating and plan-specific costs based on the allocation formula decided by the Minister of Finance. This formula was amended effective January 1, 2006 and will be reviewed every three years.

Cost per Member		
	2006 Actual	2005 Actual
APA Corporation Operating Costs	$153	$174
Board and Plan-specific Costs	$42	$57
Investment Management Costs	$46	$48
Total Plan Operating Costs	**$241**	**$279**

members, pensioners and employers

SFPP serves seven employers and a total of 5,286 active and deferred members and pensioners. In 2006, 158 people joined SFPP, 161 SFPP members retired and 78 people terminated (includes members who chose to keep their benefits in SFPP and members who withdrew their benefit entitlements).

Membership Snapshot (as at December 31)		
	2006	2005
Active Members	3,389	3,347
Deferred Members	92	75
Pensioners	1,805	1,647
Total	**5,286**	**5,069**
New Members	158	306
Members Retiring	161	101

communication and education services

In 2006, APA Corporation communicated with SFPP members, pensioners and employers in a number of ways, including:

#	Communication or Education Service Provided
158	Member Welcome Packages were sent to new members
5	Member Seminars were held
5,500	Copies of the *2005 SFPP Annual Report Highlights* were printed, of which 5,091 were mailed
5,500	Copies of each of the *2006 Winter* and *2006 Fall Member and Pensioner Newsletter* were printed, of which 5,051 and 5,192 were mailed respectively
42	Members participated in Member Seminars
29	Members attended One-on-One Sessions held across Alberta
12	Editions of the electronic employer newsletter, *Pension e-news*, were produced

service performance

APA Corporation recognizes the importance of efficient service delivery and stakeholder satisfaction.

To understand stakeholder needs and determine the levels of satisfaction with services, APA Corporation conducted surveys of stakeholders. Each of the surveys is intended to gauge the readability and effectiveness of the material.

Welcome Packages

When an employer registers a new member into SFPP, that member is sent a personalized package of information that includes information relevant to a new member, and a copy of the *Members' Handbook*.

Pension Options Packages

When a member retires, a comprehensive Pension Options Package is sent to the member. Each package contains personalized information showing the amount of pension payable under each pension option and information related to those options. Also included in the package are the forms needed for the pension choice.

Member Annual Statements
Each year, every active member is sent a statement summarizing their account activities for the year and providing an estimated benefit as if the payment was to have been made at the end of the year.

Employers
An annual survey is also sent to employer representatives to gauge employer satisfaction levels with services provided to them by APA Corporation.

2006 Results*:

	Welcome Packages	Pension Options Packages (Members)	Member Annual Statements	Employers
Packages Sent	158	164	3,246	17
Response Rate	36%	19%	5 responses	14 responses
Overall Indexed Satisfaction	82	97	83	61

* In 2006, the Corporation moved from percentage scoring to index scoring. Index scoring assigns a weight to each satisfaction category (very dissatisfied, dissatisfied, satisfied and very satisfied). By using an index score, the Corporation will have improved data for planning purposes and will gain a clearer understanding of important changes in customer satisfaction.

APA Corporation met 94% of the targets for service standards established for the calculation of pension benefits, payouts and other member services. For more information on these service standards, please see APA Corporation's annual report at www.apaco.ab.ca.

investment report

market review

The Canadian stock market posted its fourth consecutive year of double digit returns. Overall, the Standard & Poor's (S&P)/Toronto Stock Exchange (TSX) Composite Index increased by 17.3% in 2006 compared to 24.1% in 2005, 14.5% in 2004 and 26.7% in 2003. Over eight years, the annualized return from this index was 10.9%.

In 2006, the U.S. equity market as represented by the S&P 500 Index, which tracks the performance of the largest 500 American companies, increased by 15.8% in U.S. dollars, compared to 4.9% last year. In Canadian dollars, the increase in the S&P 500 Index was approximately the same at 15.7% compared to 1.6% last year. Currency movements had very little impact on U.S. dollar returns when translated into Canadian dollars. Over eight years, the annualized return from this index was -0.1%.

Overall, non-North American equity markets had healthy returns in 2006. The Morgan Stanley Capital International Index for Europe, Australasia, and the Far East (MSCI EAFE) measures the performance of approximately 1,200 companies on 21 country indices around the world. The index increased by 26.3% in Canadian dollars compared to 10.0% last year. Over eight years, the annualized return from this index was 3.4%.

The Canadian bond market, as measured by the Scotia Capital (SC) Universe Bond Index, increased by 4.1% over the year compared to 6.5% in 2005. Over eight years, the annualized return from this index was 6.2%.

investment returns

We can see from the preceding section that individual market indices can fluctuate between years of high and low returns. By comparison, SFPP earned a return of 14.6% in 2006 compared to 12.1% in 2005.

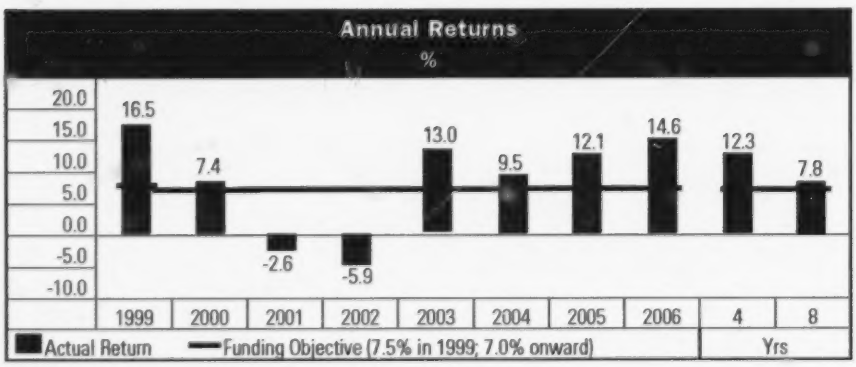
Investing in only one market exposes the portfolio to unreasonable risks, as witnessed in the Canadian equity market between September 2000 and March 2003 when the S&P/TSX Composite Index fell 41.1%. By diversifying across a variety of markets and asset classes, SFPP's balanced portfolio has produced consistent value-added performance over the long term.

statement of investment policies and goals

Plan assets are invested for the benefit of the Plan's beneficiaries in accordance with the Board's SIP&G. The SIP&G is reviewed and updated annually by the Board. It sets out the governing investment principles and guidelines, giving particular consideration to the Plan's provisions, characteristics and financial obligations and the Board's capital market expectations. It also defines the management structure and monitoring procedures.

long-term investment objective

The long-term investment expectation for the Plan is 3.75% above the annual rate of inflation (as measured by the Consumer Price Index). With long-term inflation currently assumed at 3.25%, the required long-term average annual return is therefore 7.0%. The 2006 actual return of 14.6% exceeded the required long-term average annual return of 7.0%.



The fair value of the Plan's net assets increased to $1.468 billion, up $177 million from $1.291 billion the previous year.

board activities

The Board has put in place a number of measures to ensure proper governance of the Plan's investments. Along with reviewing the SIP&G annually, the Board evaluates the investment management structure periodically and monitors the performance of the investment portfolio and compliance with policies on a quarterly basis. Board members seek to expand their knowledge of investment issues and trends through attendance at seminars, presentations from advisors and reviewing published industry research.

AIM, the investment operation of Alberta Finance, aids the Alberta Minister of Finance in the investment management of the Plan. AIM invests SFPP's assets for the benefit of its members, subject to legislation, and the SIP&G recommended by the Board.

The Board monitors the services AIM provides to the Plan. Services provided and charges for those services (including performance standards) are set out in the Operating Protocol between AIM and the Board. An independent investment consulting firm, Hewitt Associates, assists the Board in its oversight of the investment performance of the Plan.

The Board conducts detailed asset-liability modeling studies to identify the best asset mix for the Plan, taking into account the nature of the Plan's benefit structure, financial assets and the most up-to-date expectations for the financial markets. The Board then reviews Fund objectives, taking into consideration the studies' recommendations, and makes any appropriate changes to the SIP&G.

asset mix

The long-term asset mix is weighted more towards public equities at 54%, followed by fixed income securities at 31%, real estate at 7% and alternative investments at 8%.

In 2006, the Plan's alternative investment portfolio included private income securities and timberland investments. Both private income and timberland investments are structured to provide high current income. They are relatively illiquid asset classes, and require time to build and exit investments. Private income investment opportunities could include infrastructure projects, bridge loans, and corporate finance arrangements with high current income. The timberland investment is a partnership interest in forestry land in British Columbia.

Alberta Finance, through AIM, manages the majority of SFPP's investments internally. However, in order to achieve greater diversification, and access external expertise and specialized knowledge, as well as reduce potential complexity, some equity investments are managed externally by third-party investment managers selected and managed by AIM.

The following table shows the policy asset mix for the Plan compared to the actual asset mix at December 31, 2006 and the previous year.

	Long-term Policy Asset Mix		Actual Asset Mix	
	2006	2005	2006	2005
Fixed Income				
Short-term Investments	1.0%	1.0%	0.8%	0.6%
Bonds and Mortgages	14.0%	14.0%	23.8%	29.6%
Long Government Bonds	14.0%	14.0%	7.3%	2.5%
Real Return Bonds	2.0%	2.0%	1.6%	1.7%
Total Fixed Income	**31.0%**	**31.0%**	**33.5%**	**34.4%**
Equities				
Public Equities				
Canadian	18.0%	18.0%	16.8%	19.6%
United States	18.0%	18.0%	21.1%	18.5%
Non-North American	18.0%	18.0%	20.1%	19.9%
	54.0%	54.0%	58.0%	58.0%
Real Estate	7.0%	7.0%	7.0%	6.7%
Alternative Investments				
Private Income	3.0%	3.0%	1.1%	0.5%
Timberland	2.0%	2.0%	0.4%	0.4%
Private Equities	3.0%	3.0%	-	-
	8.0%	8.0%	1.5%	0.9%
Total Equities	**69.0%**	**69.0%**	**66.5%**	**65.6%**

SFPP investment results in relation to the benchmarks

The investment return for each asset class and the overall performance of the Plan's assets are measured against clearly defined benchmarks, which have been established in the SIP&G. The Plan's investment policy benchmark is based on the long-term asset mix weightings of the portfolio comprised of the following indices:

SC 91-Day T-Bill Index, SC Universe Bond Index, SC Long Term Government Bond Index, SC Real Return Bond Index, S&P/TSX Capped Composite Index, BMO Small Cap Blended Index, S&P 500 Index, Russell 2500 Index, MSCI EAFE Index, IPD Large Institutional All Property Index, Consumer Price Index (CPI) plus 8%, CPI plus 6% and CPI plus 4%.

The performance of AIM is reviewed against the policy benchmark to measure the effectiveness of its decisions. Performance is reviewed quarterly, with an emphasis on four-year returns. The investment policy of the Board has an expectation that AIM will add approximately 60 basis points (0.6%) per annum after fees above the total Fund policy benchmark over a four-year rolling period.

In 2006, the Plan's overall return of 14.6% from its investments out-performed its policy benchmark return of 13.8% by 80 basis points. Over four years, the Plan's investments returned 12.3%, 70 basis points better than the policy benchmark return of 11.6%. On an eight-year period, the Plan returned 7.8%, exceeding the policy benchmark return of 6.9% by 90 basis points.

The table below compares the actual returns from the Plan's investments against the benchmark index returns.

	Annual Returns				Annualized Returns				
	2006 %	2005 %	2004 %	2003 %	1 year %	2 years %	3 years %	4 years %	8 years %
Total Fund	**14.6**	**12.1**	**9.5**	**13.0**	**14.6**	**13.4**	**12.1**	**12.3**	**7.8**
Policy Return (1)	*13.8*	*10.6*	*9.4*	*12.5*	*13.8*	*12.2*	*11.3*	*11.6*	*6.9*
Consumer Price Index (2)	*1.6*	*2.2*	*2.1*	*2.0*	*1.6*	*1.9*	*2.0*	*2.0*	*2.3*
Short-term Fixed Income	**3.9**	**2.8**	**2.8**	**3.1**	**3.9**	**3.3**	**3.2**	**3.1**	**3.9**
SC 91-Day T-Bill Index	*4.0*	*2.6*	*2.3*	*2.9*	*4.0*	*3.3*	*2.9*	*2.9*	*3.6*
Total Long-term Fixed Income	**4.4**	**7.8**	**7.9**	**7.6**	**4.4**	**6.1**	**6.7**	**6.9**	**6.9**
Long-term Benchmark Index (3)	*3.7*	*7.2*	*7.1*	*6.7*	*3.7*	*5.4*	*6.0*	*6.2*	*6.3*
Canadian Equities	**18.3**	**24.5**	**15.3**	**26.3**	**18.3**	**21.3**	**19.3**	**21.0**	**13.0**
Canadian Equity Index (4)	*17.3*	*23.7*	*14.5*	*28.7*	*17.3*	*20.4*	*18.4*	*20.9*	*11.1*
United States Equities	**15.4**	**2.0**	**3.6**	**8.3**	**15.4**	**8.5**	**6.8**	**7.2**	**0.3**
U.S. Equity Index (5)	*15.8*	*2.2*	*4.4*	*7.4*	*15.8*	*8.8*	*7.3*	*7.3*	*0.3*
Non-North American Equities	**26.7**	**12.9**	**12.2**	**14.3**	**26.7**	**19.6**	**17.1**	**16.4**	**5.9**
MSCI EAFE Index	*26.3*	*10.0*	*12.0*	*13.4*	*26.3*	*17.8*	*15.9*	*15.2*	*3.4*
Total Foreign Equity	**21.3**	**7.6**	**7.9**	**11.3**	**21.3**	**14.2**	**12.1**	**11.9**	**3.4**
Foreign Equity Index	*21.1*	*6.3*	*8.1*	*10.4*	*21.1*	*13.4*	*11.7*	*11.4*	*2.0*
Real Estate	**21.3**	**29.9**	**10.6**	**10.0**	**21.3**	**25.5**	**20.3**	**17.7**	**12.3**
IPD Large Institutional All Property Index (6)	*18.6*	*19.4*	*12.9*	*8.2*	*18.6*	*19.0*	*16.9*	*14.7*	*12.5*
Alternative Investments	**14.0**	**10.8**	**4.5**	**n/a**	**14.0**	**12.4**	**9.7**	**n/a**	**n/a**
Alternative Investments Index (7)	*6.5*	*n/a*	*n/a*	*n/a*	*6.5*	*n/a*	*n/a*	*n/a*	*n/a*

(1) The 2005 policy benchmark has been updated to include the published Institute of Canadian Real Estate Investment Managers (ICREIM)/Investment Property Databank (IPD) Large Institutional All Property Index for the fourth quarter of 2005. In the *2005 SFPP Annual Report*, the estimated policy benchmark return was 10.7.

(2) The Consumer Price Index (CPI) is reported on a real-time basis.

(3) Combined SC Universe, SC Long All Government and SC Real Return Bond Index.

(4) Combined S&P/TSX Capped Composite Index and BMO Small Cap Blended Index.

(5) Combined S&P 500 Index and Russell 2500 Index.

(6) Changed to IPD Large Institutional from IPD All Property Index effective March 1, 2005. Prior to January 1, 2003, the Real Estate benchmark was the Russell Canadian Property Index (RCPI). The 2005 Real Estate benchmark return has been updated to include the published IPD Large Institutional Index for the fourth quarter of 2005. In the *2005 SFPP Annual Report* the estimated IPD Large Institutional Index policy benchmark return was 20.7%.

(7) Combined Consumer Price Index (CPI) plus 6% for Private Income and CPI plus 4% for Timberland. The CPI in this benchmark is calculated and reported on a one-month lagged basis due to a timing difference in reporting between AIM and Statistics Canada throughout the year.

fixed income investments

The SC Universe Bond Index measures the performance of marketable Canadian bonds with terms to maturity of more than one year. Over the past year, the combined SC Universe Bond, Long-term Government and Real Return Bond Indices increased by 3.7% while the short-term SC 91-Day T-Bill Index increased by 4.0%.

Over one year, the cash and short-term component returned 3.9%, compared to the benchmark SC 91-Day T-Bill Index return of 4.0%. The Plan's actual rate of return over one year from long-term fixed income securities was 4.4%, 70 basis points better than the combined long-term fixed income benchmark. Over four years, the return from long-term fixed income securities was 6.9% or 70 basis points better than the benchmark of 6.2%.

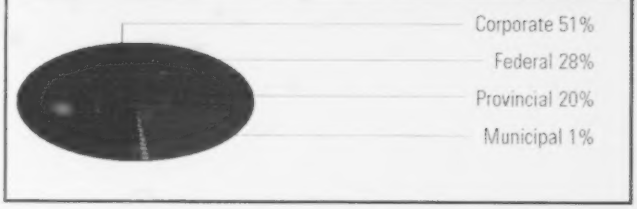
Short-term Fixed Income	Actual Return %	Benchmark SC 91-Day T-Bill Index %	Net Value Added (basis points)*
One Year	3.9	4.0	(10)
Four Years (annualized)	3.2	2.9	30
Long-term Fixed Income	**Actual Return %**	**Benchmark** ** **%**	**Net Value Added (basis points)***
One Year	4.4	3.7	70
Four Years (annualized)	6.9	6.2	70

* One basis point equals 0.01%.
** Combined SC Universe, Long Government and Real Return Bond Indices.

At December 31, 2006, investments in bonds, mortgages and cash totalled 33.5% of total investments or $490 million compared to 34.4% or $442 million the previous year.

Summary of Fixed Income Holdings by Security Type

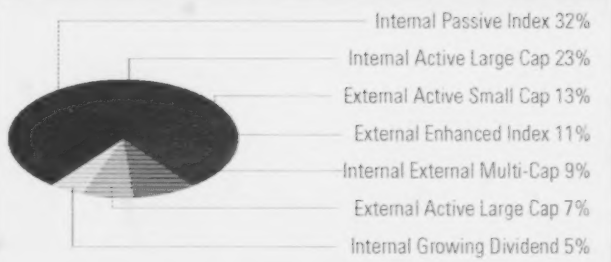
Summary of Fixed Income Holdings (Issued & guaranteed by)



canadian public equity investments

At December 31, 2006, Canadian public equities represented 16.8% of SFPP's total investments or $245 million compared to 19.6% or $253 million at the end of the previous year. Canadian equities are managed through several strategies including both passive index and active mandates. AIM manages the passive index and select actively managed large cap strategies internally. External investment advisors actively manage the small cap strategy and the balance of the large cap strategy (investing in companies with large market capitalization and incorporating value, growth, and core styles).

Summary of Canadian Public Equity Holdings



Canadian Public Equity Holdings by Industry Sector - %

	2006	2005
Financials	30	29
Energy	26	27
Materials	16	15
Industrials	8	8
Consumer discretionary	6	6
Telecommunications	5	5
Information technology	4	4
Consumer staples	3	4
Utilities	1	1
Health care	1	1
	100	100

The actual return from Canadian equity investments over the year was 18.3%, 100 basis points better than the benchmark Canadian equity index of 17.3%.

Canadian Public Equities	Actual Return %	Benchmark* %	Net Value Added (basis points)
One Year	18.3	17.3	100
Four Years (annualized)	21.0	20.9	10

* For 2006, combined S&P/TSX Capped Composite Index and BMO Small Cap Blended Index.

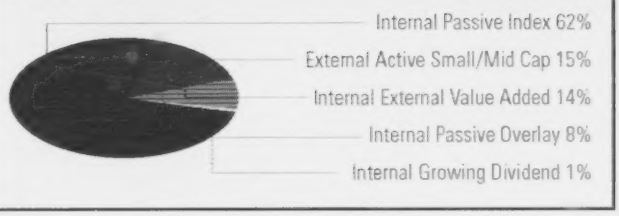
foreign equities

The foreign equity allocation is divided into U.S. and non-North American equity markets. The non-North American segment includes investments in Europe, Australasia and the Far East (EAFE) and emerging markets.

U.S. public equities

At December 31, 2006, U.S. public equities comprised 21.1% of the Plan's total investments or $310 million compared to 18.5% or $239 million the previous year. The U.S. equity portfolio is comprised of internally managed passive index strategies and externally managed active large cap and small-mid cap strategies.

Summary of U.S. Public Equity Holdings



U.S. Public Equity Holdings by Industry Sector - %

	2006	2005
Financials	22	21
Information technology	15	15
Health care	12	13
Industrials	12	12
Consumer discretionary	11	11
Energy	9	9
Consumer staples	8	8
Materials	4	4
Utilities	4	4
Telecommunications	3	3
	100	100

The Plan's actual return from U.S. equity investments in 2006 was 15.4%, 40 basis points less than the U.S. benchmark of 15.8% in Canadian dollars.

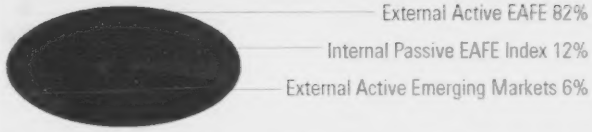
U.S. Public Equities	Actual Return %	Benchmark* %	Net Value Added (basis points)
One Year	15.4	15.8	(40)
Four Years (annualized)	7.2	7.3	(10)

* For 2006, combined S&P 500 and Russell 2500 Index.

non-north american public equities

Non-North American public equities comprised 20.1% or $296 million of total Plan investments at December 31, 2006 compared to 19.9% or $256 million the previous year. The Plan's non-North American equity component is comprised of an internally managed passive index strategy, externally managed active EAFE strategy and an actively managed emerging markets strategy.

Summary of Non-North American Public Equity Holdings



Non-North American Public Equity Holdings by Industry Sector - %

	2006	2005
Financials	29	28
Consumer discretionary	13	12
Industrials	13	13
Energy	7	7
Health care	7	8
Information technology	7	7
Materials	7	8
Consumer staples	6	7
Telecommunications	6	6
Utilities	5	4
	100	100

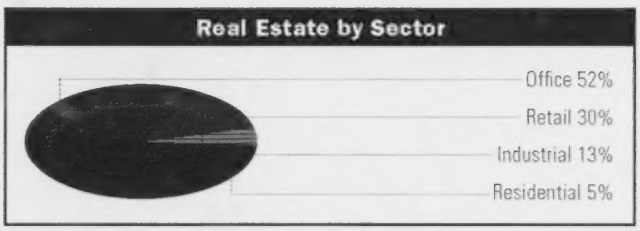
The Plan's actual return from non-North American equity investments in 2006 was 26.7%, 40 basis points better than the benchmark return MSCI EAFE Index of 26.3% in Canadian dollars.

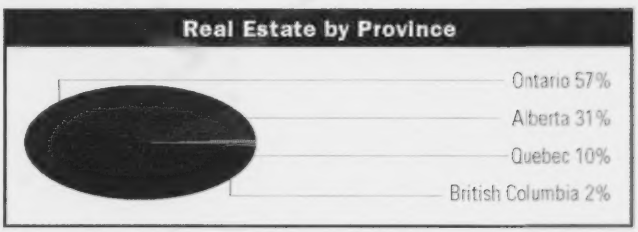
Non-North American Public Equities	Actual Return %	Benchmark MSCI EAFE Index %	Net Value Added (basis points)
One Year	26.7	26.3	40
Four Years (annualized)	16.4	15.2	120

real estate

At December 31, 2006, the Plan's real estate portfolio comprised 7.0% or $103 million of total investments compared to 6.7% or $86 million the previous year. Investments are primarily in a mix of office, retail, industrial and residential properties in major Canadian urban areas including Toronto, Ottawa, Montreal, Calgary, Edmonton, and Vancouver. The focus is on quality, featuring strong locations and tenants.

Top Five Real Estate Holdings (as at December 31, 2006)		
Property	Location	Sector
Yorkdale Shopping Centre	Toronto, Ontario	Retail
Place Ville Marie	Montreal, Quebec	Office
Square One Shopping Centre	Mississauga, Ontario	Retail
Scarborough Town Centre	Toronto, Ontario	Retail
Bow Valley Square	Calgary, Alberta	Office



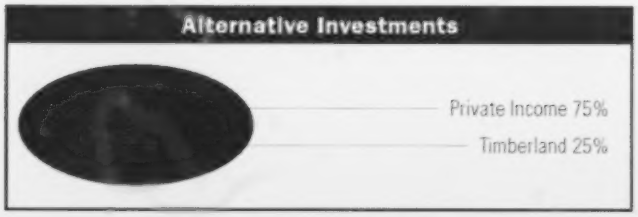


The Plan's actual return from real estate investments in 2006 was 21.3%, 270 basis points better than the benchmark return of 18.6%.

Real Estate	Actual Return %	Benchmark IPD Large Institutional All Property Index %	Net Value Added (basis points)
One Year	21.3	18.6	270
Four Years (annualized)	17.7	14.7	300

alternative investments

The Plan's alternative investment portfolio consists of private income securities and timberland investments. Private income securities include infrastructure-related projects that are structured to yield high current income. Timberland investments provide high current income and long investment horizons. At December 31, 2006, private income securities comprised 1.1% of total Plan investments or $16 million compared to 0.5% or $6.8 million at the end of the previous year. Timberland investments comprised 0.4% of total Plan investments or $5.3 million compared to 0.4% or $5.5 million at the end of the previous year.



In 2006, alternative investments returned 14.0%, 750 basis points better than the benchmark return of 6.5%.

Alternative Investments	Actual Return %	Benchmark* %	Net Value Added (basis points)
One Year	14.0	6.5	750
Four Years (annualized)	n/a	n/a	n/a

* For 2006, combined consumer price index (CPI) plus 6% and CPI plus 4%.

risk management system

AIM maintains a market risk management system to model and measure the market risks associated with investments for SFPP. The system provides a comprehensive framework for measuring, monitoring, and managing risk to assist in the decisions regarding investment and risk policies.

proxy voting

The Board has delegated to AIM the responsibility for voting proxies. AIM votes in the best interests of Plan beneficiaries and in accordance with established policies through a service provider, Institutional Shareholder Services (ISS). The annual policy update by ISS supports and applies recent developments in corporate governance oversight. AIM applies policies, which adhere to the principles of the Dey Report*, while monitoring the opinions of peer organizations regarding contentious votes. AIM's proxy voting policies will be used to support responsible management practices. AIM believes in responsible investing based on owning well-managed, legally operating companies in Canada and in countries where Canada has normal trade relationships. AIM operates with the principles of maximizing financial returns at prudent levels of risk.

During the year, to the extent practical, AIM monitored listed Canadian company votes it deemed to be contentious. ISS votes appearing to be contrary to AIM's guidelines were overridden, where appropriate.**

* The Dey Report, written by a committee sponsored by the Toronto Stock Exchange, contains "best practice" guidelines for corporate governance.
** AIM analysts apply due diligence for companies listed on the S&P/TSX Composite Index that receive a low Rotman Score from the Clarkson Centre for Business Ethics & Board Effectiveness. The Rotman score "is a transparent, objective, and adaptable rating system" that ranks "Boards of Directors by their potential to act in an effective way" based on past performance and practices.

AIM's forward looking statements

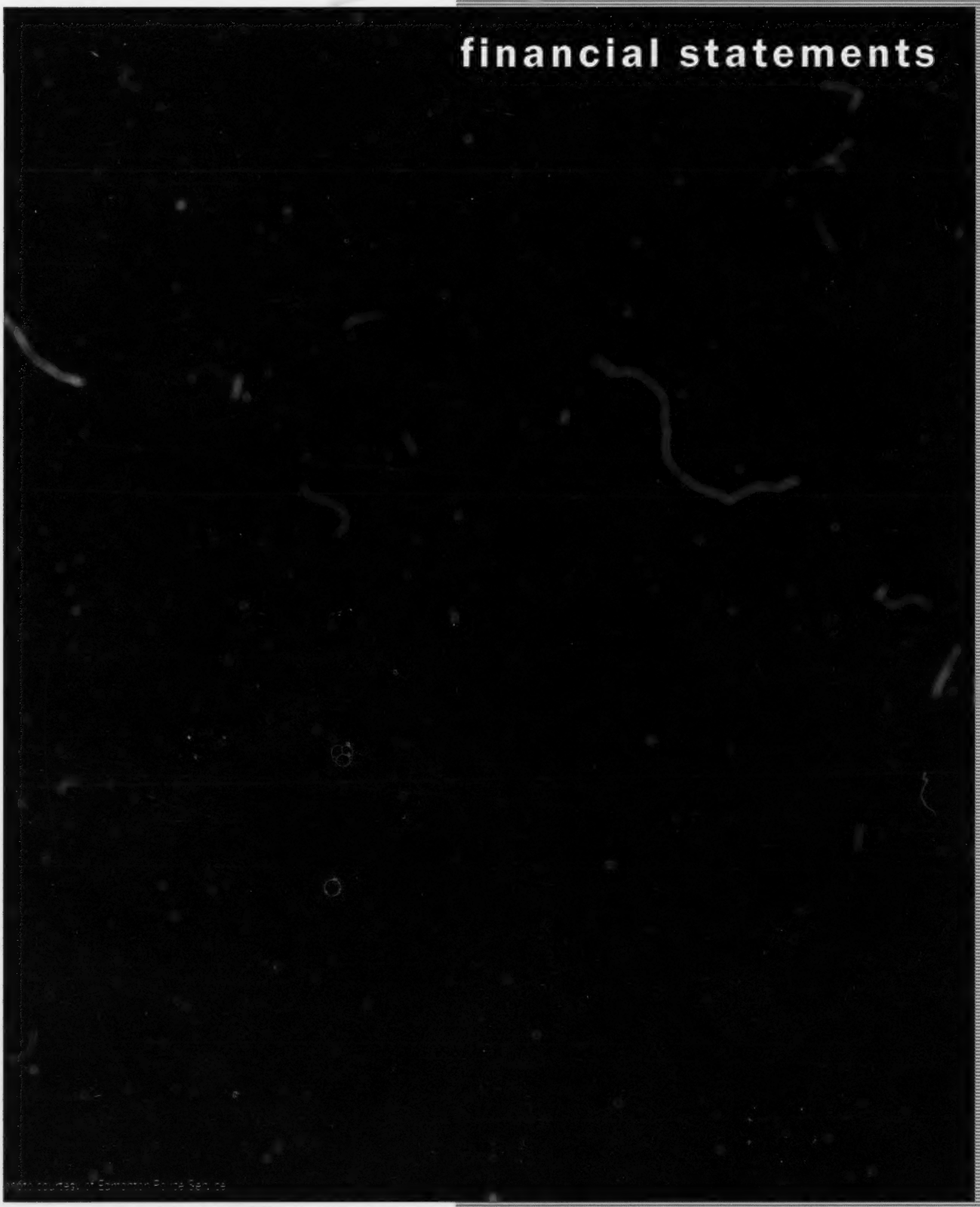
U.S. economic growth weakened substantially through the second half of 2006, largely due to weakness in the U.S. housing market. While growth will likely bounce back somewhat in early 2007, we expect growth to be weaker than what was seen in 2005 and early 2006. This will have several consequences. First is a likelihood that corporate profitability, which has been very strong in recent years, will be less robust, hampering equity market performance somewhat. Second, slower U.S. growth will have a negative impact on growth in other countries around the world. While the degree of this second impact is an open question, Canadian growth will likely continue to be adversely affected in 2007. Further, a weaker U.S. economy will take some pressure off commodity prices, something that could impact commodity-laden Canadian equity markets. In short, we believe that a somewhat defensive stance in favour of larger companies with well-diversified income streams is appropriate.

A weaker U.S. economy would also suggest only modest changes in interest rates. Slowing economies reduce inflation expectations, and this will take pressure off bond yields. That said, the Federal Reserve Board remains highly attuned to the risks of inflation. It is likely to keep the Fed Funds rate steady for at least the first half of 2007. Over the year, we expect long-term bond yields to fluctuate modestly and without trend, while short-term bond yields will likely fall in the latter half of the year.

In real estate, improving underlying rental market fundamentals and strong capital market demand created a good environment for positive results, especially in Western Canada with its booming resource economies. Cost pressures and supply shortages have increased the risk to new construction activity; however, the potential return to new development remains solid. Globally, in 2007, the continued pressure to deploy investment capital will bring about intense competition for stable income-generating assets with investors bidding down initial returns to new lows. However, investors should not count on further yield compression, i.e. yields being driven down by unprecedented investor demand, to drive future returns. Going forward, we expect an increased focus on growing rental income either through leasing and development or through diversification in non-Canadian real estate markets.*

* The above comments were paraphrased from Bentall Capital and LaSalle Investment Management market summaries and succinctly capture many investors' thoughts on the state of real estate investment.

financial statements



management's responsibility for financial reporting

The Special Forces Pension Plan (Plan) financial statements and financial information in the 2006 Annual Report are the responsibility of the Minister of Finance. Certain of these responsibilities are undertaken on behalf of the Minister of Finance by:

- Alberta Investment Management (AIM), the investment operation of Alberta Finance, which is only responsible for the management of assets, subject to legislation and to the investment policies and goals approved by the Plan Board;
- Alberta Pensions Administration (APA) Corporation, which is only responsible for administration of the Plan under an Administrative Services Agreement with the Minister of Finance. This responsibility also includes compilation of the Plan's Annual Report; and
- Alberta Treasury Board, which is responsible for compilation and review of the Plan's financial statements.

The information in the annual report has been approved by the Plan Board. The financial statements were approved by the Deputy Minister of Finance, based on information provided by APA Corporation and the Plan's actuary, and after consultation with the Plan Board.

The financial statements have been prepared by Alberta Treasury Board in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgments. Financial information presented in the 2006 Annual Report that relates to the operations and financial position of the Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, Alberta Treasury Board, Alberta Finance, APA Corporation and AIM each maintain a system of internal controls comprising written policies, standards and procedures, and a formal accountability structure. These systems are designed to provide management of these entities with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of the financial statements.

Original signed by

Robert Bhatia
Deputy Minister of Finance

March 16, 2007

auditor's report

To the Minister of Finance and the Special Forces Pension Board

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Special Forces Pension Plan as at December 31, 2006, and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Surplus (Deficiency) for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2006 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Surplus (Deficiency) for the year then ended in accordance with Canadian generally accepted accounting principles.

Original signed by

Fred Dunn, FCA
Auditor General

Edmonton, Alberta
March 16, 2007

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

special forces pension plan

statement of net assets available for benefits and accrued benefits

as at december 31, 2006

	2006	2005
	($ thousands)	
Net assets available for benefits		
Assets		
Investments (Note 3)	$1,464,816	$1,288,233
Accounts receivable (Note 6)	2,953	2,782
	1,467,769	1,291,015
Liabilities		
Accounts payable	509	25
Net assets available for benefits	1,467,260	1,290,990
Accrued benefits		
Actuarial value of accrued benefits (Note 7)		
Plan Fund	1,424,137	1,353,848
Indexing Fund	9,849	4,485
	1,433,986	1,358,333
Surplus (Deficiency)		
Plan Fund*	33,274	(67,343)
Indexing Fund	-	-
	$33,274	**$(67,343)**

* The Plan Fund is comprised of a pre-1992 deficiency of $25,135,000 (2005 $79,799,000) and a post-1991 surplus of $58,409,000 (2005 $12,456,000).

The accompanying notes and schedules are part of these financial statements.

special forces pension plan

statement of changes in net assets available for benefits

for the year ended december 31, 2006

	2006			2005
	Plan Fund	Indexing Fund	Total	Total
	($ thousands)			
Increase in assets				
Net investment income (Note 8)	$185,033	$3,154	$188,187	$139,929
Contributions (Note 9)	49,001	3,440	52,441	51,451
	234,034	6,594	240,628	191,380
Decrease in assets				
Pension benefits	58,744	-	58,744	53,370
Refunds and transfers	4,364	-	4,364	2,299
Administration expenses (Note 10)	1,250	-	1,250	1,373
	64,358	-	64,358	57,042
Increase in net assets before transfer	169,676	6,954	176,270	134,338
Transfer from the Indexing Fund to the Plan Fund (Note 12)	1,230	(1,230)	-	-
Increase in net assets after transfer	170,906	5,364	176,270	134,338
Net assets available for benefits at beginning of year	1,286,505	4,485	1,290,990	1,156,652
Net assets available for benefits at end of year	**$1,457,411**	**$9,849**	**$1,467,260**	**$1,290,990**

The accompanying notes and schedules are part of these financial statements.

special forces pension plan

statement of changes in accrued benefits

for the year ended december 31, 2006

	2006			2005
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Increase in accrued benefits				
Interest accrued on benefits	$53,047	$40,860	$93,907	$89,443
Benefits earned	242	37,917	38,159	37,192
Cost-of-living indexing adjustments and interest	1,077	5,618	6,695	483
	54,366	84,395	138,761	127,118
Decrease in accrued benefits				
Benefits, transfers and interest	49,472	13,636	63,108	55,669
Net experience gains	-	-	-	70,463
Changes in actuarial assumptions	-	-	-	7,658
	49,472	13,636	63,108	133,790
Net increase (decrease) in accrued benefits	4,894	70,759	75,653	(6,672)
Accrued benefits at beginning of year	782,052	576,281	1,358,333	1,365,005
Accrued benefits at end of year	**$786,946**	**$647,040**	**$1,433,986**	**$1,358,333**

The accompanying notes and schedules are part of these financial statements.

special forces pension plan

statement of changes in surplus (deficiency)

for the year ended december 31, 2006

	2006			2005
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
(Deficiency) Surplus at beginning of year	$(79,799)	$12,456	$(67,343)	$(208,353)
Increase in net assets available for benefits	59,558	111,348	170,906	134,338
Net (increase) decrease in accrued benefits	(4,894)	(65,395)	(70,289)	6,672
Surplus (Deficiency) at end of year (Note 13)	**$(25,135)**	**$58,409**	**$33,274**	**$(67,343)**

The accompanying notes and schedules are part of these financial statements.

special forces pension plan

notes to the financial statements
december 31, 2006

note 1 - summary description of the plan
The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act,* Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 369/93, as amended.

(a) General
The Plan is a contributory defined benefit pension plan for police officers employed by participating employers in Alberta. The Plan is a registered pension plan as defined in the *Income Tax Act.* The Plan's registration number is 0584375.

(b) Funding Policy
Plan Fund
Current service costs and the Plan's actuarial deficiency (see Note 13) in respect of service after 1991 are funded by employer and employee contributions at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2006 were unchanged at 9.61% of pensionable salary for employers and 8.51% for employees. The rates are reviewed at least once every three years by the Special Forces Pension Board (the Board) based on recommendations of the Plan's actuary.

The unfunded liability for service prior to December 31, 1991 as determined by actuarial valuation is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2006 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

Indexing Fund
Benefit payment increases for post-1991 cost-of-living adjustments (COLA) (see Note 1(i)) are funded by contributions to the Indexing Fund from employers and employees. The rates in effect at December 31, 2006 were 0.75% of pensionable salary each for employers and employees. Rates are reviewed at least once every three years by the Board based on recommendations of the Plan's actuary.

Subject to the *Employment Pension Plans Act,* the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

(c) Retirement Benefits
The Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the five highest consecutive years, subject to the maximum benefit limit allowed under the federal *Income Tax Act.* The maximum service allowable under the Plan is 35 years. Members are entitled to a pension at retirement who have attained age 65, or have attained age 55 and have at least five years of service, or have at least 25 years of service. Pensions will be reduced at the age of 65 by 0.6% of the average Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) times years of pensionable service. The YMPE is averaged over the same five-year period as the average salary.

For a member who has a pension partner at retirement, the normal form of pension is a Joint and Last Survivor, guaranteed for a five-year period, with 65% continuing to the pension partner if he or she survives the member.

For a member who does not have a pension partner at retirement, the normal form is a single life pension guaranteed for a five-year period.

note 1 - summary description of the plan (continued)

(d) Disability Benefits
Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service.

(e) Death Benefits
Benefits are payable on the death of a member before retirement. If the member had at least five years of service and there is a pension partner or dependent minor child, benefits may take the form of a survivor pension, or a lump sum payment. If the member has less than five years of service, the pension partner or beneficiary is entitled to receive death benefits in the form of a lump sum payment, and with respect to pre-1992 service, there are additional benefits for dependent minor children.

(f) Termination Benefits
Members who terminate with at least five years of service and who are not immediately entitled to a pension may receive a refund of contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of service receive a refund of contributions and interest.

(g) Guarantee
Payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta.

(h) Optional Service and Transfers
All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of commuted value for all service, or all contributions made by the member to the Plan.

(i) Cost-of-Living Adjustments (COLA)
Pensions payable by the Plan Fund for pre-1992 service are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the 12-month period ending on October 31st in the previous year.

For post-1991 service, the Board is responsible for setting cost-of-living adjustments based on funds available in the Indexing Fund (see Note 12).

note 2 - summary of significant accounting policies and reporting practices

(a) Basis of Presentation
These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

Plan investments are held in pooled investment funds administered by Alberta Finance or external managers appointed by Alberta Finance. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

note 2 - summary of significant accounting policies and reporting practices (continued)

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs:

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Finance.

The fair value of alternative and private investments is estimated by Alberta Finance or external managers appointed by Alberta Finance using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models.

Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

Interest rate swaps and cross currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

note 2 - summary of significant accounting policies and reporting practices (continued)

(e) Valuation of Derivative Contracts (continued)

Swap option contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swaps.

Gains and losses on derivative contracts are recognized concurrently with changes in fair value.

(f) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Plan's actuarial value of accrued benefits and in the valuation of the Plan's private and alternative investments and real estate. Uncertainty arises because:

(i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation of the Plan's accrued benefits, and

(ii) the estimated fair values of the Plan's private and alternative investments and real estate may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the calculation of the Plan's actuarial value of accrued benefits and in the valuation of the Plan's private and alternative investments and real estate, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations are disclosed as net experience gains or losses in the statement of changes in accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

note 3 - investments (schedules a to e)

	2006		2005	
	Fair Value		Fair Value	
	($ thousands)	%	($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$8,241	0.6	$5,390	0.4
Canadian Dollar Public Bond Pool (b)	285,177	19.5	317,704	24.7
Canadian Long Term Government Bond Pool (b)	106,840	7.3	31,700	2.5
Private Mortgage Pool (c)	62,581	4.3	63,331	4.9
Real rate of return bonds (d)	23,633	1.6	22,468	1.7
External Managers Currency Alpha Pool (e)	3,598	0.2	1,888	0.2
Total fixed income securities	490,070	33.5	442,481	34.4
Canadian Equities (Schedule B)				
Domestic Passive Equity Pooled Fund (f)	85,276	5.8	95,880	7.4
External Managers				
Canadian Small Cap Equity Pool (g)	34,433	2.4	36,675	2.8
Canadian Equity Enhanced Index Pool (h)	29,362	2.0	27,282	2.1
Canadian Large Cap Equity Pool (g)	18,674	1.3	20,208	1.6
Canadian Pooled Equities Fund (i)	57,883	4.0	57,733	4.5
Canadian Multi-Cap Pool (j)	23,535	1.6	15,802	1.2
Growing Equity Income Pool (k)	12,421	0.8	12,705	1.0
Private Equity Pool	3,817	0.3	1,207	0.1
Tactical Asset Allocation Pool (o)	(20,326)	(1.4)	(14,183)	(1.1)
	245,075	16.8	253,309	19.6
United States Equities (Schedule C)				
U.S. Structured Equity Pool (l)	192,240	13.1	162,640	12.6
External Managers				
U.S. Mid/Small Cap Equity Pool (m)	44,567	3.0	36,316	2.8
Portable Alpha U.S. Transfer Pool (n)	43,701	3.0	18,764	1.5
Tactical Asset Allocation Pool (o)	25,378	1.7	17,717	1.4
Growing Equity Income Pool (k)	4,062	0.3	3,186	0.2
	309,948	21.1	238,623	18.5
Equities, balance forward	555,023	37.9	491,932	38.1

note 3 - investments (schedules a to e) (continued)

	2006 Fair Value ($ thousands)	%	2005 Fair Value ($ thousands)	%
Equities (brought forward)	555,023	37.9	491,932	38.1
Non-North American Equities (Schedule D)				
External Managers				
EAFE Active Equity Pool (p)	243,051	16.6	194,599	15.1
Emerging Markets Equity Pool (q)	16,433	1.1	16,166	1.3
EAFE Passive Equity Pool (r)	460	-	757	0.1
EAFE Structured Equity Pooled Fund (r)	35,617	2.4	44,203	3.4
	295,561	20.1	255,725	19.9
Alternative Investments - Equities				
Private Income Pool (s)	16,024	1.1	6,846	0.5
Timberland Pool (t)	5,339	0.4	5,536	0.4
	21,363	1.5	12,382	0.9
Real Estate Equities (Schedule E)				
Private Real Estate Pool (u)	102,799	7.0	85,713	6.7
Total equities	974,746	66.5	845,752	65.6
Total investments	**$1,464,816**	**100.0**	**$1,288,233**	**100.0**

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Canadian Dollar Public Bond Pool (CDPB) and the Canadian Long Term Government Bond Pool (CLGB) are managed with the objectives of providing competitive returns comparable to the total returns of the Scotia Capital Universe Bond Index and the Scotia Capital Long Term All Government Bond Index respectively over a four-year period while maintaining adequate security and liquidity of participants' capital. The CDPB portfolio is comprised of high-quality Canadian fixed income instruments and debt-related derivatives while the CLGB portfolio invests only in high-quality fixed income instruments of the federal, provincial and municipal governments of Canada. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the Pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(d) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

note 3 - investments (schedules a to e) (continued)

(e) The External Managers Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

(f) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(g) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to investing in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over the long term while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(h) The External Managers Canadian Equity Enhanced Index Pool consists of a single portfolio of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

(i) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(j) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is managed by an external manager with expertise in the Canadian small/mid cap markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period.

(k) The Growing Equity Income Pool is managed with the objective of providing returns higher than the return of S&P/TSX Custom Dividend Index over a four-year period. The Pool is intended to provide a steady stream of dividend income with potential for capital appreciation by investing in dividend-paying Canadian and U.S. companies that exhibit attractive valuation, growth and financial characteristics.

(l) The U.S. Structured Equity Pool is passively managed. The portfolio is comprised of publicly traded United States equities similar in weights to the Standard & Poor's S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The Pool utilizes a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the Pool also invests in futures, swaps and other structured investments.

(m) The External Managers U.S. Mid/Small Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. The portfolios are actively managed by external managers with expertise in the U.S. mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the S&P Russell 2500 Index over a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

note 3 - investments (schedules a to e) (continued)

(n) The Portable Alpha U.S. Transfer Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. The performance objective is to provide returns higher than the S&P 500 Index over the long term.

(o) The Tactical Asset Allocation Pool is managed with the objective of providing a quick, effective and efficient way to reduce exposure to Canadian equities and increase exposure to United States equities through synthetic instruments on a largely unfunded basis. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in Canadian and United States equity index futures contracts.

(p) The External Managers EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded non-North American equities. Each portfolio is actively managed by an external manager and has constraints on foreign currency management, country allocation, stock selection and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period while reducing return volatility through multiple manager investment styles and market diversification.

(q) The External Managers Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolios are actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) Index over a four-year period.

(r) The performance objective of the External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of non-North American publicly traded equities similar in weights to the MSCI EAFE Index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The Pooled Fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(s) The Private Income Pool is managed with the objective of providing investment return comparable to the Consumer Price Index plus 6% over the long term. The Pool invests in infrastructure-related projects that are structured to yield high current income.

(t) The Timberland Pool's performance objective is to provide a rate of return higher than the Consumer Price Index plus 4% over the long term. The Pool invests in a partnership interest in forestry land in British Columbia.

(u) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through limited partnerships and intermediary companies which have issued to the Pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The Pool is intended to provide diversification from the securities market.

note 4 - investment risk management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long-term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities. In order to earn the best possible return at an acceptable level of risk, the Board has established a long-term benchmark policy asset mix of 31% fixed income instruments and 69% equities. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

note 5 - derivative contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to credit, interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. Generally there are underlying securities supporting all swaps and leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed-upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

note 5 - derivative contracts (continued)

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2006:

	2006					2005	
	Maturity				Net		Net
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
	%			($ thousands)			
Equity index swap contracts	77	23	-	$312,455	$9,656	$279,467	$6,416
Swap option contracts	73	9	18	263,665	(192)	-	-
Interest rate swap contracts	9	50	41	231,639	(141)	88,946	1,670
Credit default swap contracts	3	18	79	154,233	195	30,561	287
Forward foreign exchange contracts	100	-	-	126,433	(299)	71,504	(155)
Equity index futures contracts	100	-	-	102,679	3,213	66,479	951
Cross-currency interest rate swap contracts	18	33	49	84,827	2,711	75,832	4,843
Bond index swap contracts	100	-	-	80,624	330	16,492	403
				$1,356,555	**$15,473**	**$629,281**	**$14,415**

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

note 6 - accounts receivable

	2006	2005
	($ thousands)	
Contributions receivable		
Employers	$1,284	$1,236
Employees	1,182	1,135
Province of Alberta	230	224
	2,696	2,595
Receivable from Alberta Pensions Administration Corporation	119	137
Receivable from sale of investments and accrued investment income	138	50
	$2,953	**$2,782**

note 7 - accrued benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2004 by Hewitt and Associates and was then extrapolated to December 31, 2006.

Actuarial valuations were determined using the projected benefit method prorated on service. The assumptions used in the valuations and extrapolations were developed as the best estimate of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary, the Board approved these best estimates.

The major assumptions used were:

	December 31	
	2006 Extrapolation	2004 Valuation and 2005 Extrapolation
	%	%
Investment return	7.0	7.0
Inflation rate	3.25	3.25
Salary escalation rate*	3.75	3.75

* In addition to merit and promotion.

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension liability with respect to service that was recognized as pensionable as at December 31, 1991. This information is provided in the Statement of Changes in Accrued Benefits, which shows the principal components of the change in the actuarial value of accrued benefits.

Based on the information provided above, the following table summarizes the fair value of net assets, accrued benefits, and the resulting deficiency of the Plan Fund as at December 31, 2006:

	2006			2005
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Plan Fund net assets available for benefits	$761,811	$695,600	$1,457,411	$1,286,505
Plan Fund accrued benefits	786,946	637,191	1,424,137	1,353,848
Plan Fund surplus (deficiency) (Note 13)	**$(25,135)**	**$58,409**	**$33,274**	**$(67,343)**

As at December 31, 2006, the Indexing Fund held investments of $9,849,000 (2005 $4,485,000) with offsetting accrued benefits of the same amount.

note 7 - accrued benefits (continued)

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2006:

		Sensitivities	
	Changes in Assumptions %	**Increase in Plan Deficiency** ($ million)	**Increase in Current Service Cost as a % of Pensionable Earnings***
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$82	0.0% **
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	37	1.8%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	206	3.8%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2004 valuation was 16.2%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

note 8 - net investment income

Net investment income is comprised of the following:

	2006	**2005**
	($ thousands)	
Net realized and unrealized gains on investments, including those arising from derivative transactions	$138,764	$94,993
Interest income	34,300	32,661
Dividend income	12,824	10,523
Real estate operating income	4,522	3,523
Securities lending income	435	336
Pooled funds management and associated custodial fees	(2,658)	(2,107)
	$188,187	**$139,929**

note 8 - net investment income (continued)

The following is a summary of the Plan's proportionate share of net investment income by type of investments:

	2006	2005
	($ thousands)	
Fixed income securities	$21,738	$31,861
Canadian equities	43,714	55,705
Foreign equities		
United States	38,042	3,853
Non-North American	64,005	29,881
Alternative investments - equities	2,462	692
Real estate equities	18,226	17,937
	$188,187	**$139,929**

The following is a summary of the investment performance results attained by the Plan:

	One-Year Return	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return
Time-weighted rates of return*			
Overall Plan	14.6%	12.3%	7.8%
Policy Benchmark**	13.8%	11.6%	6.9%

* The measure involves the calculation of the net return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns.

note 9 - contributions

	2006	2005
	($ thousands)	
Current and optional service		
Employers	$22,760	$22,214
Employees	20,884	20,557
Unfunded liability		
Employers	2,775	2,721
Employees	2,775	2,721
Province of Alberta	2,866	2,788
Transfers from other plans	381	450
	$52,441	**$51,451**

note 10 - administration expenses

	2006	2005
	($ thousands)	
General administration costs	$994	$1,042
Investment management costs	240	237
Actuarial fees	16	94
	$1,250	**$1,373**

Total administration expenses amounted to $241 per member (2005 $279 per member).

General administration costs including Plan Board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

The Plan's share of the Alberta Pensions Administration Corporation's operating and Plan-specific costs was based on cost allocation policies approved by the Minister of Finance. These policies have been revised on a prospective basis effective January 1, 2006 and will be reviewed once every three years by the Minister.

Investment management costs were paid to Alberta Finance and do not include pooled funds management and associated custodial fees, which have been included in the calculation of net investment income (see Note 8).

note 11 - remuneration of board members

Remuneration paid to or on behalf of Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chair	Members
Remuneration rates effective April 1, 2006:		
Up to 4 hours	$181	$135
4 to 8 hours	309	224
Over 8 hours	492	350

	2006	2005
During 2006, the following amounts were paid:		
Remuneration		
Chair	$2,528	$2,730
Members (5)	14,654	14,765
Travel expenses		
Chair	2,879	8,997
Members (5)	12,985	22,588

note 12 - transfer from the indexing fund to the plan fund

Transfer from the Indexing Fund to the Plan Fund is approved by the Board based on the Plan actuary's advice to finance the payment of cost-of-living increases for post-1991 service by the Plan Fund (see Note 1(i)).

As as December 31, 2006, cost-of-living increases for post-1991 service have been granted at 60% of the increase in the Alberta Consumer Price Index from January 1, 1992 to December 31, 2000.

note 13 - funding of actuarial deficiency

The Plan's surplus (deficiency) is determined on the fair value basis for accounting purposes. However, for funding valuation and extrapolation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation and extrapolation purposes amounted to $1,373 million at December 31, 2006 (2005 $1,228 million).

In accordance with the *Public Sector Pension Plans Act,* the unfunded liability for post-1991 service as determined by an actuarial funding valuation is financed by a special payment currently totalling 1.86% of pensionable salary shared equally between employees and employers effective until December 31, 2019. The special payment is included in the rates in effect at December 31, 2006 (see Note 1(b)).

note 14 - comparative figures

Comparative figures have been restated to be consistent with 2006 presentation.

note 15 - responsibility for financial statements

These financial statements were approved by the Deputy Minister of Finance, based on information provided by Alberta Pensions Administration Corporation and the Plan's actuary, and after consultation with the Special Forces Pension Board.

special forces pension plan

schedule of investments in fixed income securities

december 31, 2006

	Plan's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	$12,827	$10,899
Fixed income securities (a) (b)		
Public		
Government of Canada, direct and guaranteed	120,397	119,614
Provincial		
Alberta, direct and guaranteed	108	166
Other, direct and guaranteed	109,546	84,556
Municipal	691	1,940
Corporate	242,336	221,004
	473,078	427,280
Receivable from sale of investments and accrued investment income	4,563	4,346
Liabilities for investment purchases	(398)	(44)
	4,165	4,302
	$490,070	**$442,481**

(a) Reflects the Plan's effective investments in fixed income securities, after taking into account the Plan's proportionate share of Canadian bond index swap contracts held by pooled funds (see Note 5).

(b) Fixed income securities held as at December 31, 2006 had an average effective market yield of 5.28% per annum (2005 4.38% per annum). The following term structure of these securities as at December 31, 2006 was based on principal amount.

	2006	2005
	%	
Under 1 year	2	2
1 to 5 years	23	27
6 to 10 years	30	32
11 to 20 years	13	14
Over 20 years	32	25
	100	**100**

special forces pension plan

schedule of investments in canadian equities

december 31, 2006

	Plan's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	$1,503	$2,191
Public equities (a) (b)		
Consumer discretionary	13,997	16,216
Consumer staples	7,634	9,657
Energy	60,162	65,233
Financials	69,504	70,985
Health care	2,042	2,817
Industrials	18,910	20,092
Information technology	10,818	11,017
Materials	38,283	36,244
Telecommunication services	11,505	10,871
Utilities	2,317	2,687
	235,172	245,819
Passive index	579	695
	235,751	246,514
Private Equity Pool	3,817	1,207
Receivable from sale of investments and accrued investment income	4,362	6,247
Liabilities for investment purchases	(358)	(2,850)
	4,004	3,397
	$245,075	**$253,309**

(a) Reflects the Plan's effective investments in Canadian public equities, after taking into account the Plan's proportionate share of Canadian equity index swaps and futures contracts held by pooled funds (see Note 5).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

special forces pension plan

schedule of investments in united states equities

december 31, 2006

	Plan's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	$6,432	$5,561
Public equities (a) (b)		
Consumer discretionary	33,633	25,336
Consumer staples	25,196	19,646
Energy	27,786	20,763
Financials	67,130	49,420
Health care	36,931	30,934
Industrials	35,583	27,605
Information technology	46,361	34,553
Materials	10,316	8,723
Telecommunication services	9,315	5,967
Utilities	10,819	8,035
	303,070	230,982
Passive index	160	227
	303,230	231,209
Receivable from sale of investments and accrued investment income	1,031	5,683
Liabilities for investment purchases	(745)	(3,830)
	286	1,853
	$309,948	**$238,623**

(a) Reflects the Plan's effective investments in United States public equities, after taking into account the Plan's proportionate share of U.S. equity index swaps and futures contracts held by pooled funds (see Note 5).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

special forces pension plan

schedule of investments in non-north american equities

december 31, 2006

	Plan's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	$6,058	$1,202
Public equities (a) (b)		
Consumer discretionary	36,435	28,970
Consumer staples	18,035	16,794
Energy	20,143	18,739
Financials	82,033	68,562
Health care	19,957	19,534
Industrials	38,573	31,058
Information technology	18,713	16,450
Materials	20,296	19,363
Telecommunication services	17,949	15,683
Utilities	13,167	10,348
	285,301	245,501
Passive index	6,743	8,030
Receivable from sale of investments and accrued investment income	3,488	3,258
Liabilities for investment purchases	(6,029)	(2,266)
	(2,541)	992
	$295,561	**$255,725**

(a) Reflects the Plan's effective investments in non-North American public equities, after taking into account the Plan's proportionate share of non-North American equity index swaps contracts held by pooled funds (see Note 5).

special forces pension plan

schedule of investments in non-north american equities (continued)

december 31, 2006

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's. The following is a summary of the Plan's investment in non-North American public equities by country based on the geographic location of the stock exchange on which stocks were purchased:

	Plan's Share	
	2006	**2005**
	($ thousands)	
United Kingdom	$61,205	$49,633
Japan	55,969	55,087
France	31,584	24,899
Germany	21,534	14,577
Netherlands	16,537	13,023
Switzerland	16,438	18,336
Spain	11,668	6,787
Italy	10,038	7,767
Australia	8,889	9,611
Sweden	5,681	5,323
Other	45,758	40,458
	$285,301	$245,501

Schedule E

special forces pension plan

schedule of investments in real estate

december 31, 2006

	Plan's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	$53	$11
Real estate (a)		
Office	50,980	42,719
Retail	30,121	28,492
Industrial	13,058	8,517
Residential	4,967	3,909
	99,126	83,637
Passive index	3,555	1,886
Receivable from sale of investments and accrued investment income	65	179
	$102,799	**$85,713**

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share	
	2006	2005
	($ thousands)	
Ontario	$56,846	$51,878
Alberta	30,983	22,721
Quebec	9,364	7,464
British Columbia	1,933	1,574
	$99,126	$83,637

2007 directory

employee nominees
Colin Catonio, Lethbridge Police Association
Denis Jubinville (Vice-Chair), Edmonton Police Association
Graeme Ramsay, Calgary Police Association

employer nominees
Roger Rosychuk, City of Edmonton
Garth Sherwin, City of Lethbridge
David Watson (Chair), City of Calgary

crown nominee
Alex Fowlie

board secretary
Liz Doughty, Alberta Pensions Administration Corporation

plan administrator
Alberta Pensions Administration Corporation

fund management
Alberta Investment Management, Alberta Finance

investment consultant
James P. Marshall, a Hewitt Company

actuary
Hewitt Associates

auditor
Auditor General of Alberta

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SFPP Administration: sfpp.admin@gov.ab.ca
Web site: www.sfpp.ca

SFPP employers

Seven employers participate in the SFPP. They are the Police Services of:

The City of Calgary

The City of Camrose

The City of Edmonton

The Town of Lacombe

The City of Lethbridge

The City of Medicine Hat

The Town of Taber

10-year plan summary

For the year ended December 31, 2006

($ thousands)	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Change in net assets										
Income										
Investment income (loss)	$188,187	$139,929	$100,599	$121,981	$(58,936)	$(25,851)	$73,808	$139,037	$63,154	$88,060
Contributions										
Employers	22,760	22,214	19,594	18,387	16,033	15,625	14,064	13,881	12,528	11,644
Employees	20,864	20,557	18,089	17,051	14,934	14,292	12,900	12,593	11,424	10,645
Unfunded liability										
Employers	2,775	2,721	2,392	2,226	1,324	1,279	1,165	1,113	1,030	998
Employees	2,775	2,721	2,392	2,226	1,324	1,279	1,165	1,113	1,030	998
Transfers from Alberta	2,866	2,788	2,471	2,300	2,206	2,132	1,924	1,856	1,716	1,663
Transfers from other plans	381	450	621	19	60	175	92	37	29	535
Total income	**240,628**	**191,380**	**146,158**	**164,190**	**(23,055)**	**8,931**	**105,118**	**169,630**	**90,911**	**114,543**
Expenditures										
Benefits paid	58,744	53,370	49,201	45,509	42,883	38,865	36,427	34,204	32,564	29,755
Refunds and transfers	4,364	2,299	811	486	668	631	658	380	489	259
Administration expenses	1,250	1,373	1,326	1,196	1,017	797	658	630	541	404
Total expenditures	**64,358**	**57,042**	**51,338**	**47,191**	**44,568**	**40,293**	**37,743**	**35,214**	**33,594**	**30,418**
Increase (decrease) in net assets	**176,270**	**134,338**	**94,820**	**116,999**	**(67,623)**	**(31,362)**	**67,375**	**134,416**	**57,317**	**84,125**
Net assets										
Investments										
Deposits	8,241	5,390	8,803	6,713	6,110	12,179	15,985	2,393	8,197	2,118
Fixed income securities	481,829	437,091	405,724	362,113	341,206	355,145	370,300	328,453	319,923	308,822
Equities										
Canadian	245,075	253,309	237,335	224,597	190,577	268,503	288,511	413,417	299,360	292,049
United States	309,948	238,623	210,834	196,839	172,959	165,403	159,888	72,125	86,603	49,543
Non-North American	295,561	255,725	231,926	216,239	181,796	159,687	163,152	116,616	105,363	113,512
Real Estate	102,799	85,713	55,793	52,613	50,202	49,755	44,535	42,201	22,384	18,275
Private Income Pool	16,024	6,846	3,875	493	-	-	-	-	-	-
Timberland Pool	5,339	5,536	-	-	-	-	-	-	-	-
Total investments	**1,464,816**	**1,288,233**	**1,154,290**	**1,059,607**	**942,850**	**1,010,672**	**1,042,371**	**975,205**	**841,830**	**784,319**
Contributions and other receivables	2,953	2,782	2,379	2,400	2,051	1,792	1,512	1,304	364	422
Liabilities	(509)	(25)	(17)	(175)	(68)	(8)	(65)	(66)	(167)	(31)
Net assets available for benefits	1,467,260	1,290,990	1,156,652	1,061,832	944,833	1,012,456	1,043,818	976,443	842,027	784,710
Actuarial value of accrued benefits	1,433,986	1,358,333	1,365,005	1,289,059	1,210,678	1,106,172	1,041,763	893,891	838,291	736,200
Surplus (Deficiency)	**33,234**	**(67,343)**	**(208,353)**	**(227,227)**	**(265,845)**	**(93,716)**	**2,055**	**82,552**	**3,736**	**48,510**
Funded ratio (%)	102	95	85	82	78	92	100	109	100	107

Continued on next page.

10-year plan summary (continued)

For the year ended December 31, 2006

($ thousands)	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Performance (%)										
Long-term goal	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.50	7.50	8.00
Rate of return - nominal	14.60	12.10	9.50	13.00	(5.90)	(2.60)	7.40	16.50	8.10	12.50
Benchmark	13.80	10.60	9.40	12.50	(6.90)	(3.40)	6.10	15.10	10.40	13.50
Consumer Price Index (Canada)	1.6	2.20	2.10	2.00	3.90	0.70	3.20	2.50	1.00	1.60
Real rate of return	13.00	9.90	7.40	11.00	(9.80)	(3.30)	4.20	14.00	7.10	10.90
Interest rates (%)										
Bank of Canada	4.25	3.25	2.75	3.00	3.00	2.50	6.00	5.00	5.30	4.50
U.S. Federal Reserve	5.25	4.25	2.25	1.00	0.75	1.25	6.50	5.50	4.50	5.50
Market indices (%)										
S&P/TSX ($Cdn)	17.3	24.13	14.48	26.75	(12.45)	(12.57)	7.41	31.70	(1.59)	14.99
S&P 1500 ($Cdn)*	15.3	1.63	3.26	5.29	(22.89)	(6.35)	(5.79)	14.20	38.00	39.24
MSCI EAFE ($Cdn)	26.0	9.98	11.98	13.39	(16.82)	(16.50)	(11.19)	19.97	28.80	6.25
SC Universe Bond Index	4.1	6.46	7.10	6.69	8.73	8.08	10.25	(1.14)	9.18	9.63
Participants										
Active members	3,389	3,347	3,195	3,064	3,080	2,856	2,729	2,708	2,560	2,473
Deferred members	92	75	60	56	57	35	42	49	50	45
Pensioners	1,805	1,647	1,545	1,459	1,365	1,287	1,207	1,143	1,080	1,021
Total	**5,286**	**5,069**	**4,800**	**4,579**	**4,502**	**4,178**	**3,978**	**3,900**	**3,690**	**3,539**
Average age of active members (years)	39.0	39.0	39.0	39.0	39.0	39.0	39.1	38.8	38.8	38.9
Average age of pensioners (years)	60.8	60.8	60.8	60.8	60.1	60.1	59.7	58.8	58.8	58.3
Average annual pension amount	$33,588	$33,132	$31,101	$31,101	$31,309	$31,309	$30,548	$30,523	$30,523	$29,501
Current contribution rates (%)										
Employees	8.51%	8.51%	8.51%	8.51%	7.20%	7.20%	7.20%	7.20%	7.20%	7.20%
Employers	9.61%	9.61%	9.61%	9.61%	8.30%	8.30%	8.30%	8.30%	8.30%	8.30%
Unfunded liability - pre-1992										
Province of Alberta	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
Employer and Employee	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Indexing - employer and employee	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Annual cost-of-living adjustment (COLA)**	1.20%	0.78%	3.42%	1.02%	1.98%	1.98%	1.32%	0.66%	1.32%	1.26%

* S&P 1500 in 2006, previously S&P 500.

** As of January 1, 2006, all service years to the end of 2000 receive COLA.